

HOUSE BILL REPORT

ESHB 1669

As Passed House:

March 9, 2009

Title: An act relating to the deposit of public funds.

Brief Description: Addressing the deposit of public funds.

Sponsors: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Hunt, Hasegawa, Appleton, Miloscia, Warnick, Kirby, Williams and Ormsby).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/5/09, 2/17/09 [DPS].

Floor Activity

Passed House: 3/9/09, 58-39.

Brief Summary of Engrossed Substitute Bill

- Authorizes the Public Deposit Protection Commission to approve credit unions as public depositories.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Bailey, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Hurst, McCoy, Nelson and Simpson.

Minority Report: Without recommendation. Signed by 2 members: Representatives Roach and Santos.

Staff: Alison Hellberg (786-7152)

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Public funds may only be deposited in banks and thrift institutions that have been designated as public depositories by the Public Deposit Protection Commission (Commission). The Commission was established in 1969 and is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The State Treasurer chairs the Commission and provides administrative support. The Commission is responsible for protecting all public funds deposited in public depositories. "Public funds" are those moneys belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes moneys held in trust.

A "public depository" is defined as a financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has been approved by the Commission to hold public deposits, and which has segregated for the benefit of the Commission eligible collateral having a value of not less than its maximum liability. Credit unions may not be approved as public depositories.

To be approved as a public depository, a bank or thrift must meet minimum requirements of the Commission and must pledge securities as collateral to protect public funds on deposit in all public depositories (not just for that particular institution). If deposit insurance and collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositories are each assessed a proportionate share of the shortfall.

The State Treasurer may contract with financial institutions for the provision of custody services for negotiable instruments owned by local governments or institutions of higher education. Credit unions are not allowed to provide custody services under these contracts.

Summary of Engrossed Substitute Bill:

Credit unions may be approved as public depositories. A financial institution is authorized to serve as a public depository regardless of any exemptions from state taxes. The State Treasurer may contract with credit unions for the provision of custody services.

Credit unions approved as public depositories must at all times pledge and segregate eligible securities in an amount equal to 100 percent of all public funds on deposit in the public depository. The "maximum liability" in reference to a credit union public depository means a sum equal to 100 percent of all collateral posted to secure the public deposits. Credit union public depositories may not accept public funds in excess of their insured amount.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2010.

Staff Summary of Public Testimony:

(In support) These are very different financial times. Credit unions play an important role in communities and are often located in close proximity to public institutions. There are constant complaints from credit unions and public entities because they want credit unions to

be public depositaries. Allowing credit unions to become public depositaries will also allow them to participate in the linked deposit program.

This would not be automatic. Credit unions would still need to meet all of the other requirements of the law and the Commission. Credit unions may currently accept federal public funds, and credit unions in several other states are authorized to be public depositaries, including Idaho, California, and Oregon. Credit unions do pay taxes, they are only exempt from the business and occupation tax. Other financial institutions receive exemptions in an amount more than the exemption that credit unions are able to claim. Credit unions want to be able to participate at the same level as other financial institutions.

(Opposed) This bill inequitable, poses unnecessary risks, and does not help municipalities. The acceptance of public funds is contrary to the purpose of the credit unions. It dilutes their mission. There is no compelling need to change current law. Credit unions do not contribute to the generation of public funds so they should not benefit from holding them. If credit unions started paying taxes, then it would make sense for them to be public depositaries. Perhaps it is more appropriate to consider whether it is still a good policy to give credit unions a tax exemption. There should be a level playing field.

Banks are better able to participate in this system because of their reserve funds and access to capital. Credit unions are not stable or solvent at this point. This will add risk to the pool.

Persons Testifying: (In support) Representative Hunt, prime sponsor; and Stacy Augustine, Washington Credit Union League.

(Opposed) Jim Pischue, Washington Bankers Association; Mark Gaspard, Washington Financial League; and Brad Tower, Community Bankers of Washington.

Persons Signed In To Testify But Not Testifying: None.